

Testimony of David M. Simon
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Before the
House Subcommittee on Courts,
the Internet and Intellectual Property
July 24, 2003

Mr. Chairman, Congressman Berman and the Members of the Subcommittee:

Thank you for the opportunity to appear before you today. My name is David Simon and I am Chief Patent Counsel for Intel Corporation. I am pleased to testify today on behalf of Intel.

Let me thank the Subcommittee for holding these hearings. Patents are important to high technology for protecting intellectual property—the key to the United States’ growth over the last twenty years. For the IT and semiconductor industries, strong protection of patents is essential in fostering continued innovation and investment; U.S. companies are investing billions in research and development to develop cutting-edge products – these products help the U.S. remain the most competitive country in the world.

Intel commends Chairman Smith and Ranking Minority Member Berman along with the rest of the committee members for their support of a vital patent system. Intel also applauds the on-going initiatives from the United States Patent & Trademark Office under Judge Rogan's leadership to improve patent quality.

In addition to the on-going work to improve the Patent Office, Intel believes that important legislative work remains to be done with regards to patent quality. Improvidently granted patents result from well documented deficiencies in the U.S. Patent & Trademark Office including low pay for patent examiners, inadequate resources for the examiners and the test required by the Federal Circuit to determine if an application is patentable.¹ One commentator concluded that roughly half of all issued, litigated patents are invalid.² While that estimate may appear high initially, statistical analysis shows that over 90% of all US patent applications are ultimately approved and result in a patent. Contrast the US's shockingly high approval rate with the European and Japanese patent offices' approval rates of about 65%.³ Surely, applicants for American patents are not that much more discriminating than their counterparts for foreign patents in selecting ideas that merit a patent application. This differential in the approval rates between the US and foreign Patent Offices leads one to the conclusion that perhaps 40,000 improvidently granted patents issue each year.

¹ See, e.g., Robert B. Merges, As Many as Six Impossible Patents Before Breakfast, 14 Berkeley Technology Law Journal 577 (1999).

² John R. Allison & Mark A. Lemley, Empirical Evidence on the Validity of Litigated Patents, 26 AIPLA Q.J. 185 (1998).

³ Cecil D. Quillen, Jr. & Ogden H. Webster, Continuing Patent Applications and the Performance of the U.S. Patent Office 11 Federal Bar Journal (No. 1) 1, 3 (2000).

Our key concern is that these improvidently granted patents become powerful tools for abuse. This abuse seriously undermines the continued vitality of the high tech industry as legitimate companies are threatened with a permanent injunction on improvidently granted patents.

Lawyers and their financial backers have been buying these improvidently granted patents from distressed companies for the sole purpose of suing legitimate businesses. Patents can be sold like any other form of property and an active market has formed in recent years where patents can be bought or sold – frequently for less than the prosecution costs of the original patent. Intel often finds law firms and financial backers of litigation bidding against each other to buy these patents so that they can then form businesses solely for the purpose of suing legitimate companies. These lawsuits, in which the plaintiff invariably seeks a permanent injunction, stymie competition and clog the courts with useless cases brought solely to enrich these lawyers and their financial backers. These patent system bottom feeders have now become so common that Intel has coined a term to describe them: “patent trolls.”

Several problems contribute to making this “patent troll” business model a simple and effective source of illegitimate profit irrespective of the quality of the patent. For example, if the troll can claim that the patent covers \$5 billion in annual revenue, that troll will ask for a royalty fee of a few percentage points of revenue;

e.g., \$150 million per year. While that may seem to be an absurd amount to pay to someone who bought a patent out of bankruptcy for less than one hundred thousand dollars, the troll will threaten the legitimate business with a permanent injunction at the end of the patent case, threatening the halt of the sale of a critical product or closing down a production facility. Even if the chance of the troll winning is low, the troll's costs are modest, normally a few million dollars at most. In contrast, the legitimate business the troll targeted faces potential financial ruin if it can no longer sell a key product. Intel recently faced such a troll who wanted \$8 billion and a permanent injunction after purchasing the patent for \$50,000.⁴

The uncertainties in patent litigation also facilitate the patent troll's inappropriate business model. These patent trolls have the presumption of validity on their side. It is difficult to convince a jury of patent invalidity in light of the heightened evidentiary standard for invalidity of clear and convincing evidence. Adding to the troll's weapons are the uncertainties regarding how the patent claims will be interpreted by the court. One recent study showed that over one half of all appealed patent decisions by the district courts are reversed at least in part.⁵

⁴ Top Ten Defense Cases of 2000: In the shadow of the Valley, San Francisco Daily Journal April 18, 2001 <http://www.weil.com/WGM/quotables.nsf/e49ad7e458c039f78525691a0071b053/6098de882426067085256a33005879eb?OpenDocument>

⁵ Cecil D. Quillen, The U.S. Patent System: Is it Broke? And Who Can Fix It? <http://www.ftc.gov/os/comments/intelpropertycomments/quillenattachments/isitbrokewhocanfixit.pdf> at pg. 6.

Other studies show that district court interpretations of the claims are found to be in error about one-half of the time.⁶

This unpredictable legal environment has encouraged legitimate companies threatened by patent trolls to pay large settlements as trial nears rather than risking that their entire businesses will be shut down by a permanent injunction. Legitimate businesses cannot wait for the appeal process to rectify the wrong decision because it may be two years before the appeals court reverses the district court's decision. Waiting two years without product being sold and factories lying idle pending the outcome of the appeal is simply not acceptable to any business.

A recent case involving the Blackberry PDA highlights our concerns. The lawyer for the patent troll NTP had the temerity to be quoted as saying:

NTP is in the business of licensing patents. We would pursue an injunction that would prevent the [defendant] from continuing to sell Blackberrys. That's RIM's [the defendant's] nightmare.⁷

Now, if NTP is in the business of licensing, it wants money. An injunction really does NTP no good because NTP is not going to make money by RIM not selling Blackberry PDA's and not running its network. Rather, NTP was using the threat of the injunction to maximize the settlement. Is this the result that caused the

⁶ Ray K. Harris & Sandra Etherton, Software Protection: Patents <http://www.lawhost.com/lawjournal/99winter/patents5.html>

⁷ http://www.forbes.com/2002/11/21/cz-vm_1121rim_print.html

founding fathers to provide for patents in the Constitution? Intel believes this result would have baffled the founding fathers.

Unfortunately, there is little hope of change with the current situation without legislative intervention. Until now, courts have almost always sided with the patent trolls in granting permanent injunctions. The Federal Circuit has stated that the denials of permanent injunctions are “rare.”⁸ Virtually all of the recent reported cases where a district court failed to issue an immediate permanent injunction at the conclusion of a patent case involved medical products. Even in these circumstances, the courts often imposed the injunction six to twelve months after the end of the trial.⁹ Intel believes it is a gross distortion of the patent system to permit trolls to use the threat of injunctions to try to maximize their monetary claim, particularly as many of these claims are based upon improvidently granted patents bought in bankruptcy.

Therefore, Intel strongly urges this Subcommittee to give legitimate companies the tools to fight back against patent trolls by modifying section 283 of Title 35 on Patents to require that courts will fully consider the equities when deciding whether to grant a permanent injunction at the conclusion of the patent case. The Semiconductor Industry Association's proposal, which Intel wholeheartedly supports, is to add the following language to section 283:

⁸ Rite Hite Corp. v. Kelley Co., 56 F.3d 1538, 1547 (Fed. Cir. 1995)(finding that patentees failure to market the patented invention is not sufficient to support the denial of a permanent injunction).

⁹ See, e.g., Schneider (Europe) AG v. Scimed Life Sys., 852 F. Supp. 813 (D. Minn. 1994); Pall v. Micron Separations, Inc., 792 F. Supp. 1298 (D. Mass 1992); Moxness Prods. V. Xomed, Inc., 7 U.S.P.Q.2d 1877 (M.D. Fla. 1986); Shiley Inc. v. Bentley Labs, Inc., 601 F. Supp. 964 (C.D. Cal. 1985).

A court shall not grant an injunction under this section unless it finds that the patentee is likely to suffer irreparable harm that cannot be remedied by payment of money damages. In making or rejecting such a finding, the court shall not presume the existence of irreparable harm, but rather the court shall consider and weigh evidence, if any, tending to establish or negate any equitable factor relevant to a determination of the existence of irreparable harm.

In addition to making this amendment to reduce the odds that litigation concerning improvidently granted patents clog the courts, Intel understands that the Subcommittee is exploring third party and applicant submission of prior art, estoppel and inter partes reexamination, the application of section 112 during reexamination and declaratory relief and offers to license.

Intel believes that the proposal to permit third parties to submit prior art in opposition to published patent applications is laudable. Getting better prior art before the Patent Office would improve patent quality and it is in the effected parties' best interest to ensure that the Patent Office does a good job. Third party prior art submissions that were only submitted for the purpose of delay should prove apparent to examiners and a reasonable fee to submit the art would

remove most frivolous submissions. We believe with minor rewriting of the rules regarding patent protests that this can be affected.

Intel understands that requiring a prior art search by patent applicants has also been proposed; however, Intel believes this is a superfluous and a needless expense that will prove counterproductive. I estimate that this would add at least \$500 to the applicants' costs for filing, and in Intel's case, this would add over \$1 million to our costs each year. Further, applicants would merely submit all of the results of their search to avoid any question of inequitable conduct. As a result, the Patent and Trademark Office would be burdened with irrelevant prior art and it would be harder for the examiners to separate the wheat from the chaff. In addition, the Patent Office could not rely on the applicant's search anyway and would redo it. Intel firmly believes that giving the examiners the resources to do their job and compensating them adequately as proposed in Judge Rogan's Strategic Plan is a far better way to improve the quality of the prior art cited against patent applications.

Intel also believes that strengthening inter partes reexamination is highly appropriate. First, Intel believes that expanding the authority of the Patent and Trademark Office to address the enabling disclosure, written description and other requirements in 35 U.S.C. § 112 would be appropriate. Such technical issues are often best resolved before patent examiners who have technical expertise rather than before district court judges and juries.

Nonetheless, inter partes patent reexamination before the Patent Office has a major drawback: the res judicata effect of the reexamination for “issues that could have been raised before the Patent Office” as provided currently in section 315(c) of Title 35 is too broad. This language, which largely tracks the language in the Restatement Second of Judgments, has enormous breadth. It leaves anyone submitting an inter partes request at the mercy of a subsequent decision that newly uncovered prior art could have been found earlier and therefore should have been submitted in the reexamination. Intel does not believe that the breadth of res judicata in case law should be imported into reexamination. The impact and burdens of litigation that led to the doctrine of res judicata are far greater than those arising from patent reexamination procedure. Therefore Intel requests that this language be deleted from section 315(c). Otherwise, few companies will be willing to use inter partes reexamination.

Intel also believes that addressing willful infringement would be helpful and reverse a fundamental flaw in current US law. The original, constitutional premise and social contract behind patents is inventors will disclose their inventions to the public in return for the public getting the benefit of their patent’s teaching.¹⁰ In exchange, the inventor gets her patent.¹¹ The idea is that scientists would be able to study patents to create future inventions.

¹⁰ See, e.g., Kewanee Oil. Co. v. Bicron Corp., 416 U.S. 470, 481 (1974).

¹¹ See Kurt M. Saunders, Patent Non-use and the Role of the Public Interest as a Deterrent to Technology Suppression, 15 Harvard Journal of Law & Technology 1, 62 (1998).

However, the case law on willful infringement prevents such studying. An award of enhanced damages following a finding of willful infringement can result from a single engineer in a company simply reviewing another company's patents. This studying of patents that even the Supreme Court has lauded¹² should not trigger the enhanced damages that can be awarded for willful infringement. Indeed, many companies forbid their engineers from studying third party patents to avoid the charge of willful infringement. If a patentee wants to recover enhanced damages as permitted by a finding of willful infringement, the patentee should be required to provide the potential defendant with a detailed notice of the patent infringement. That notice should be at least sufficiently detailed to enable the defendant to bring a declaratory relief action. This is the position of the Intellectual Property Owners Association.

However, Intel believes that Congress should take a further step and also require the patent owner to set forth which claims it believes are infringed by which product and why. Many corporate patent counsel receive at least weekly letters from third parties regarding patents. That letter may be enough notice to trigger a willful infringement charge. Paying \$40,000 per patent for an opinion of counsel to be used to rebut the charge of willful infringement is not cost effective given the volume of such notices. Nor is filing declaratory infringement actions an appropriate remedy since these "notices letters" are far too commonplace. Imposing on the patentee the minor burden of adding a few paragraphs to a letter explaining why the patentee believes infringement exists puts the burden in the

¹² Id.

appropriate place if the patentee wants it damages multiplied by two or three due to a finding of willful infringement. These paragraphs should specify which claims are infringed by which products and why. This would avoid the added burden of enhanced damages being awarded for improvidently granted patents. In conclusion, Intel believes that the initiatives that I have outlined along with implementing Judge Rogan's Strategic Plan would greatly enhance patent quality. I would like to thank the Subcommittee for this opportunity to testify.